

Public Investment Memorandum

Hg Saturn 3 A L.P.

Private Equity Fund Commitment

February 17, 2022

Executive Summary:

Patrick G. Knapp, Portfolio Manager, together with Hamilton Lane Advisors, L.L.C. (“Hamilton Lane”), recommend to the Board a commitment of up to a combined \$100 million plus reasonable normal investment expenses in Hg Saturn 3 A L.P. (“Saturn 3”, or the “Fund”), and/or related investment vehicles.

Hg Capital LLP (the “Firm”) is raising its third fund focused on upper mid-market opportunities (>€1.5 billion enterprise value). In Fund 3, the Firm is expected to deploy the same growth-oriented investment strategy focused on European software and services investments. The general partner is targeting a fund size of \$8.5 billion in commitments.

Fund Name	Hg Saturn 3 A L.P.
Fund General Partner	Hg Saturn 3 General Partner (Guernsey) Limited (the “General Partner” or “GP”)
Management Company	Hg Capital LLP (“Hg” or the “Firm”)
Target Fund Size / Hard Cap	\$8.5 billion / To Be Determined
Recommended Commitment Amount	\$100 million
Existing Relationship	Yes
Source of Funds	Private Equity Distributions
Asset Class / Sub Asset Class	Private Equity / Buyout
Investment Office Professionals Due Diligence Team	Patrick G. Knapp, Portfolio Manager Luke M. Jacobs, Portfolio Manager
Investment Office Oversight	Darren C. Foreman, Director Patrick G. Knapp, Portfolio Manager
External Consultant Oversight	Hamilton Lane Advisors, L.L.C.

Firm Overview:

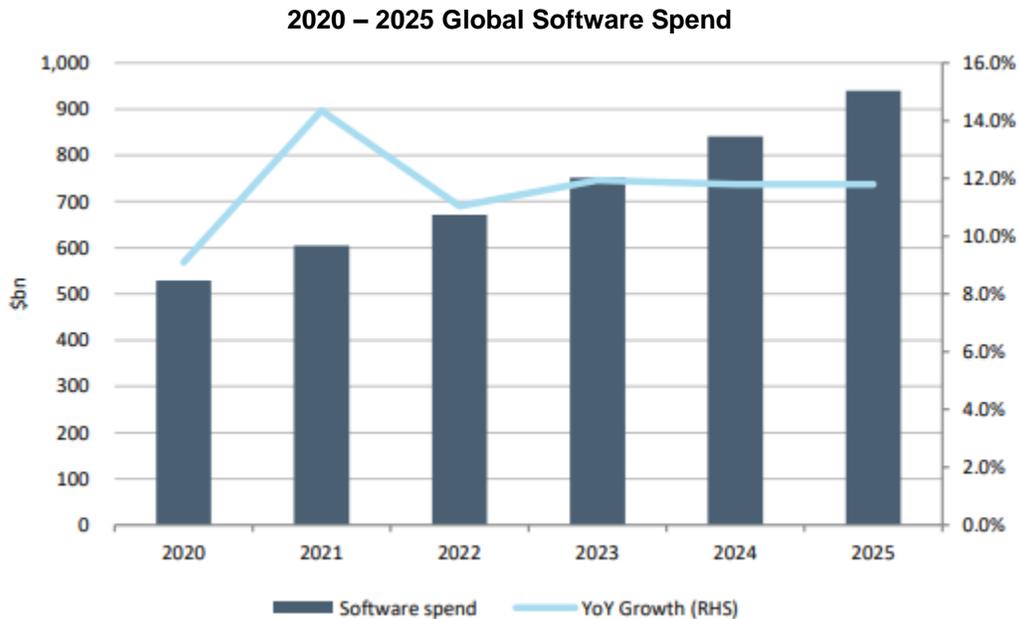
Hg was originally formed in 1990 within Mercury Asset Management (“Mercury”) as Mercury Private Equity. Following Mercury’s acquisition by Merrill Lynch, Mercury Private Equity spun out as an independent business in 2000 and rebranded as Hg (“Hg” being the chemical symbol for mercury). Following a planned succession in 2007, Nic Humphries took over as CEO of the Firm. Since that time, Hg has evolved from a mid-market sector generalist operating a single fund to one of the largest and most active software specialist buyout firms globally. Hg makes equity investments out of three separate funds covering the lower-mid (Mercury), mid (Genesis), and upper-mid market (Saturn). The Firm is 100% owned by its partners.

Strategy	Target Enterprise Values	Characteristics
Hg Mercury	€100 M - €500 M (Lower mid-market)	<ul style="list-style-type: none"> Investment Equity Requirements: €50 M – €200 M Typical fund holding: €50 M – €165 M
Hg Genesis	€500 M - €1.5 B (Mid-market)	<ul style="list-style-type: none"> Investment Equity Requirements: €200 M – €600 M Typical fund holding: €175 M – €525 M
Hg Saturn	>€1.5 B (Upper mid-market)	<ul style="list-style-type: none"> Investment Equity Requirements: >€ 600 M Typical fund holding: \$500 M – \$1 B+ (Typically, co-investment on every deal)

Since becoming an independent firm in 2000, Hg has invested in nearly 100 platforms in the software and services space.

Market Opportunity:

Software companies continue to benefit from tremendous tailwinds stemming from trends in cloud migration, internet of things (connected devices and integrated computing), adoption of the Software-as-a-Service (SaaS) business model, advances in artificial intelligence and machine learning, and automation efforts. These tailwinds combine to create a forward forecasted growth in software spend in the double digits for the foreseeable future.

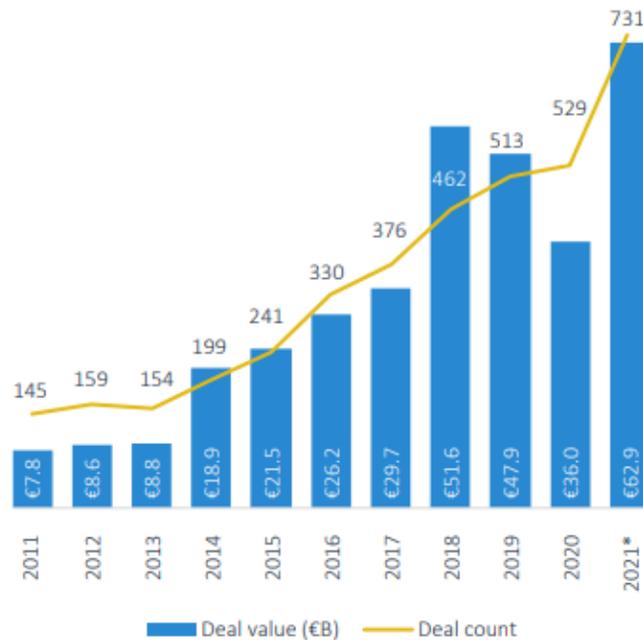


Source: Gartners, Jeffries

These growth dynamics have encouraged investment and M&A activity, further accelerating the creation of companies within Saturn 3's target enterprise value range. The Firm's combination of scale and specialization positions Hg uniquely within the European private equity landscape to take advantage of the opportunity to purchase upper mid-market software businesses and continue investing behind their growth trajectory.



Software PE deal activity



Source: PitchBook | Geography: Europe
*As of December 31, 2021

Given Hg's European expertise, Saturn 3 will also look to invest into companies that are not domiciled in Europe but have a significant growth opportunity in pursuing a European expansion strategy.

Portfolio Fit:

The table below summarizes PSERS' projected Private Equity exposure, as of September 30, 2021, inclusive of a recommended maximum amount of \$100 million commitment to the Fund. The investment in Saturn 3 will be allocated to the Buyout strategy.

Investment Type	Market Value	Unfunded ¹	Total Exposure	%	Pending Current Commitments		
					Mar 2022	Total Exposure	%
Buyout	\$ 9,102	\$ 3,931	\$ 13,033	71.7%	\$ 100	\$ 13,133	71.5%
Growth Equity	1,454	742	2,196	12.1%	100	2,296	12.5%
Venture Capital	1,090	287	1,377	7.6%	-	1,377	7.5%
Internal Co-Invest	1,306	248	1,554	8.6%	-	1,554	8.5%
Total	\$ 12,952	\$ 5,208	\$ 18,160	100.0%	\$ 200	\$ 18,360	100.0%

¹ Includes commitments approved through February 2022

Investment Strategy:

Saturn 3 will focus on software and services companies exceeding \$1.5 billion in enterprise value. Hg's investment strategy is predicated on investing in well-defined business attributes applied to sectors in which Hg has substantial experience. Key attributes Hg seeks include:

- Mission critical products and services
- High levels of recurring revenues



- High customer loyalty
- High margins
- Enterprise (business to business) focus
- Low economic sensitivity
- Differentiated positioning or intellectual property
- Diverse customer bases

Hg's investment team is organized in teams specializing in one of eight sectors:

- Tax & Accounting
- Enterprise Resource Planning & Payroll
- Legal & Regulatory Compliance
- Automation & Engineering
- Technology Services
- Capital Markets & Wealth Management IT
- Insurance
- Healthcare IT

Hg averages more than a decade of experience investing in these sectors. Hg leverages its history in these sectors to continually map the opportunity set to identify underlying trends and investment themes. It is not uncommon that Hg tracks investment targets over a multi-year period prior to making an investment.

Hg is an early adopter of the use of functional experts to aid portfolio company operations and value creation initiatives. Today, this team has grown to 46 members and is known as the Portfolio Team. Throughout the diligence process, Hg's Portfolio Team is highly involved in identifying value creation opportunities to further accelerate growth. Once invested, this team works with portfolio company management to prioritize these opportunities and directly support the success of the company, at times even taking on interim positions to provide hands-on leadership.

Investment exits are governed by a five-member Realisation Committee which monitors the delivery of the investment case and monitors prospective returns. Ultimately, this group is responsible for making exit decisions in consultation with the investment team.

Investment Team:

Hg's investment team includes over 100 professionals covering the Saturn, Genesis, and Mercury fund lines. All three of these funds share the same nine-member Investment Committee and five-member Realisation Committee. Saturn 3 has a dedicated 30-person investment team made up of seven Partners, eight Directors and Principals, and 15 Associates and Analysts, all led by Senior Partner Nic Humphries who heads the Saturn strategy. Saturn investments are supported by Hg's Portfolio Team made up of 46 professionals.

Investment Highlights:

- Market Position
- Fees
- Co-investment Opportunities
- Loss Ratio
- Responsible Investing Efforts

Investment / Risk Considerations:

- Valuation Environment
- Fund Size
- Realizations

- Portfolio Financing
- Key Person

PSERS History & Performance:

PSERS previously committed £75.0 million to Genesis 7, £95.0 million to Genesis 8, €100.0 million to Genesis 9, and \$100.0 million to Saturn 2. In addition, PSERS has committed to multiple co-investments with Hg as shown below.

The table below summarizes PSERS' performance with Hg as of September 30, 2021:

<u>Fund (\$M)</u>	<u>Vintage</u>	<u>Commitment</u>	<u>Contributions</u>	<u>Distributions</u>	<u>NAV</u>	<u>Net IRR</u>	<u>Net MoC</u>
Genesis 7	2013	\$ 101.0	\$ 94.4	\$ 170.2	\$ 34.5	18.1%	2.2x
Genesis 8	2017	127.9	101.3	39.3	178.9	59.5%	2.2x
Genesis 9	2020	115.7	25.7	0.0	38.0	334.5%	1.5x
Saturn 2	2020	100.0	46.9	2.3	78.7	176.7%	1.7x
Total Funds		\$ 444.5	\$ 268.3	\$ 211.9	\$ 330.1	26.56%	2.0x
Co-Investments	N/A	126.9	103.0	87.2	125.0	36.0%	2.1x
Total		\$ 571.4	\$ 371.3	\$ 299.1	\$ 455.1	28.3%	2.0x

Notes: Numbers may not add up due to rounding. Figures standardized in USD given that funds are denominated in multiple currencies. Genesis 7 & 8 are GBP denominated. Genesis 9 is EUR denominated. Saturn 2 is USD denominated.



Investment Committee Disclosure:

Relationship with Hamilton Lane:	<p>Hamilton Lane has conducted due diligence and approved the Fund for several consulting (non-discretionary) clients and discretionary clients who have a pre-existing relationship with Hg. Investment sizes are still being finalized. Hamilton Lane is not committing discretionary capital to Saturn 3.</p> <p>Please note that this information is subject to change pending client by client discussions and updated information is available from Hamilton Lane to PSERS upon request.</p>
Introduction Source:	<p>Prior history with Hg. Initially sourced by PSERS Investment Office Professionals.</p>
Placement Agent:	<p>In accordance with Board policy, no placement agents were used, and no payments from or on behalf of PSERS to Placement Agents shall be made in connection with securing PSERS' investment in the Fund.</p> <p>Any placement fees charged to the Fund in connection with securing commitments from other investors (excluding PSERS) will result in a corresponding reduction to PSERS' management fees.</p> <p>As confirmed by PSERS' Office of Chief Counsel on February 15, 2022, this investment complies with the Public School Employees' Retirement Board Placement Agent Policy.</p>
PA Political Contributions:	<p>None disclosed</p>
PA Presence:	<p>No</p>
Potential Conflicts:	<p>PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.</p>
Litigation Disclosure:	<p>The Firm receives communications from regulators and may be involved in litigation from time to time in the ordinary course of business. PSERS is not currently aware of any litigation which has or may have a material effect on Hg, the Fund, or any prior fund.</p>
Disclosure of External Manager-Paid Travel:	<p>Hg Capital reimbursed and/or paid the following amounts related to PSERS IOP travel during the last two calendar years:</p> <p>2020: \$0 2021: \$0</p>
Certification of Due Diligence Costs:	<p>IOP certifies there was no travel associated with the due diligence of Saturn 3, and PSERS was not reimbursed for any costs related to the due diligence of the Fund.</p>
First Time Fund With PSERS:	<p>No, see history with Hg on page 5.</p>
PSERS Allocation Implementation Committee Approval:	<p>February 17, 2022</p>